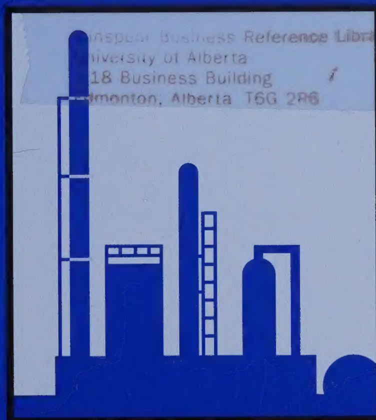
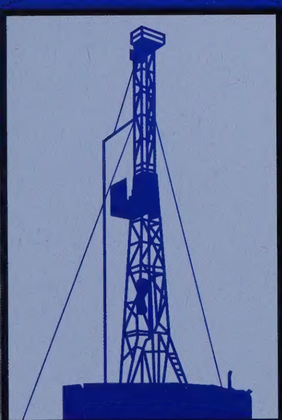
2000 ANNUAL REPORT





CAPITALIZING ON OPPORTUNITIES FOR GROWTH

KEYWEST ENERGY CORPORATION

Annual Meeting

KeyWest invites its shareholders and other interested parties to attend the Company's Annual Meeting on Tuesday, May 29th at 3:00 p.m. in the McMurray Room of the Petroleum Club located at 319 - 5th Avenue S.W., Calgary, Alberta.

Contents

Abbreviations

bbls	barrels
mbbls	thousand barrels
mmbbls	million barrels
bbls/d	barrels per day
bopd	barrels of oil per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
ngls	natural gas liquids
boe	barrels of oil equivalent

(In calculating barrels of oil equivalent natural gas is equated to oil in this report on the basis of 6 mcf = 1 barrel of oil)

Corporate Profile

KeyWest Energy Corporation is a rapidly growing junior oil and gas company based in Calgary and operating in Western Canada. KeyWest's primary corporate objective is to generate profitable growth through a strategic combination of mergers, acquisitions and drilling opportunities.

The Company's operating strategy is to establish quality, long-term oil and gas assets with upside potential in focus areas. KeyWest operates its major properties and strives to maintain large working interests.

KeyWest has built a reserve base of 7.5 million barrels of oil and 21.9 billion cubic feet of gas for a total of 11.2 million barrels of oil equivalent. Production volumes reached 3,500 boe per day by year-end and were weighted 64% to oil.

KeyWest's shares are listed on the Toronto Stock Exchange under the symbol "KWE." At March 15, 2001 KeyWest had 47.6 million common shares outstanding.

TSE Listed: KWE

Highlights

Years Ended December 31	2000	1999
Operating		
Production		
Oil – bopd	1,489	376
Gas – mcf/d	6,893	2,763
Total – boepd (6 mcf = 1 bbl)	2,638	837
Product Prices		
Oil – $/bbl	$ 31.52	$ 26.23
Gas – $/mcf	$ 5.37	$ 3.14
Reserves		
Oil – mbbls	7,510	3,790
Gas – mmcf	21,877	18,060
Total – mboe	11,156	6,800
Present value, discounted @ 10% ($000's)	$102,800	$ 41,600
Drilling Activity		
Oil wells	27	7
Gas wells	4	5
Service wells	4	–
Total wells	45	15
Net wells	42	13
Undeveloped Lands		
Net acres	58,938	25,504
Financial ($000's except per share numbers)		
Gross production revenue	$ 30,641	$ 6,783
Cash flow from operations	$ 17,631	$ 3,692
per share (basic)	$ 0.37	$ 0.10
Earnings	$ 6,957	$ 1,898
per share (basic)	$ 0.15	$ 0.05
Average shares outstanding	47,423	37,782
Capital expenditures		
Exploration & development	$ 26,451	$ 8,689
Acquisitions	$ 4,274	$ 20,560
Working capital (deficiency)	$ (4,751)	$ 7,752
Long-term debt	$ –	$ –
Shareholders' equity	$ 41,632	$ 35,203

Harold V. Pedersen
President

In 2000 KeyWest developed into a rapidly growing junior oil and gas company.

President's Letter

KeyWest Energy Corporation is pleased to present its annual report for the year ended December 31, 2000.

Company Background

In 1998, the Company's start-up year, the current management concentrated on building a strong cash position as the first step toward creating a new oil and gas company. At December 31, 1998 KeyWest Energy's sole asset was cash of $20 million.

In 1999 the Company went from being a cash-rich, start-up to a fully operational oil and gas company. KeyWest acquired its first properties at Carbon and Chin Coulee in Alberta and drilled 15 wells. By the end of 1999 production reached 2,100 barrels of oil equivalent per day (boepd) weighted 53% to gas.

In 2000 KeyWest developed into a rapidly growing junior oil and gas company. Properties were acquired at Merid, Saskatchewan and the Company drilled 45 wells. Production at year-end 2000 had grown to 3,500 boepd weighted 64% to oil. The Company continued to maintain a strong balance sheet at December 31, 2000.

Year 2000 Highlights

- Average oil production increased 296% to 1,489 bopd.
- Average gas production increased 149% to 6.89 mmcf/d.
- Cash flow increased 378% to $17,630,983.
- Earnings increased 267% to $6,957,255.
- The Company drilled 45 wells, resulting in 27 oil wells, four gas wells and four service wells.
- Proven reserves grew 74% to 6.2 million barrels of oil and 16.4 billion cubic feet of gas.
- Net asset value per share increased 88% to $2.13 from $1.13 at a 10% discount.
- Finding costs of $6.45 per boe for proven reserves and $6.09 per boe for proven plus 50% of probable reserves were among the lowest in the industry.
- The Company replaced 494% of 2000 production on a proven reserves basis. On a proven plus probable basis KeyWest replaced 552% of production.

- Operating costs were reduced 14% to $4.03 per boe.
- KeyWest acquired Viewpoint Resources Ltd., a private Alberta company, for $3.9 million in September. KeyWest issued 1.8 million shares and paid $1.9 million cash to acquire 360 boepd of production (55% gas) at Merid in Western Saskatchewan.
- KeyWest bought back 1,347,500 shares at a total cost of $1,629,659 ($1.21 per share).

People

People are a key factor to success in any business venture. During the year three managers were promoted to vice-presidents in recognition of their contributions to KeyWest's success. Bruce Beynon, M.Sc., P.Geol., is now Vice-President Exploration; Steve Sugianto, M.Sc., P.Eng., became Vice-President Engineering and Corporate Development and Ms. Carrie McLauchlin, C.A., was promoted to Vice-President Finance and Chief Financial Officer.

Fiscal 2001 Budgets

KeyWest's preliminary capital budget for fiscal 2001 is $37 million. Fifty percent of the budget, or $18 million, has been allocated to drill at least 50 wells, of which 45% will be exploratory. Land and seismic expenditures are estimated at $5 million, facilities and pipelines at $5 million, and 25% of the budget, or about $9 million, is slated for acquisitions. The budget will be funded from cash flow, expected to range from $25 to $30 million, and from unused credit lines.

Outlook for 2001

The environment for growth is excellent. We are in a period of strong commodity prices which we fully expect to continue this year and next. Oil prices are holding as OPEC nations appear to have found a new solidarity as they manage oil production rates. Natural gas prices continue to be strong, although we expect some price moderation as economic growth slows across North America and winter weather-related demand recedes.

Although commodity prices are at all time highs, stock market evaluations, particularly of smaller oil and gas companies, remain at low levels. As a result, we expect the current consolidation trend within the oil and gas industry to continue as companies consider the sale or merger option as a way of realizing fair value for their shareholders.

KeyWest is in the enviable financial position of being able to capitalize on attractive merger or acquisition opportunities that will likely become available this spring once oil and gas companies complete their reserve evaluations. In addition, the Company will increase its exploration and development programs to further exploit existing properties, as well as develop new core areas where KeyWest's land and exploration staff have been assembling acreage.

The growth we have achieved over the past three years would not have been possible without the drive and determination of our employees, all of whom are shareholders in the Company. Through their efforts we expect that 2001 will be the best year yet for KeyWest shareholders. To all shareholders, we value your trust and we will continue to earn your ongoing support.

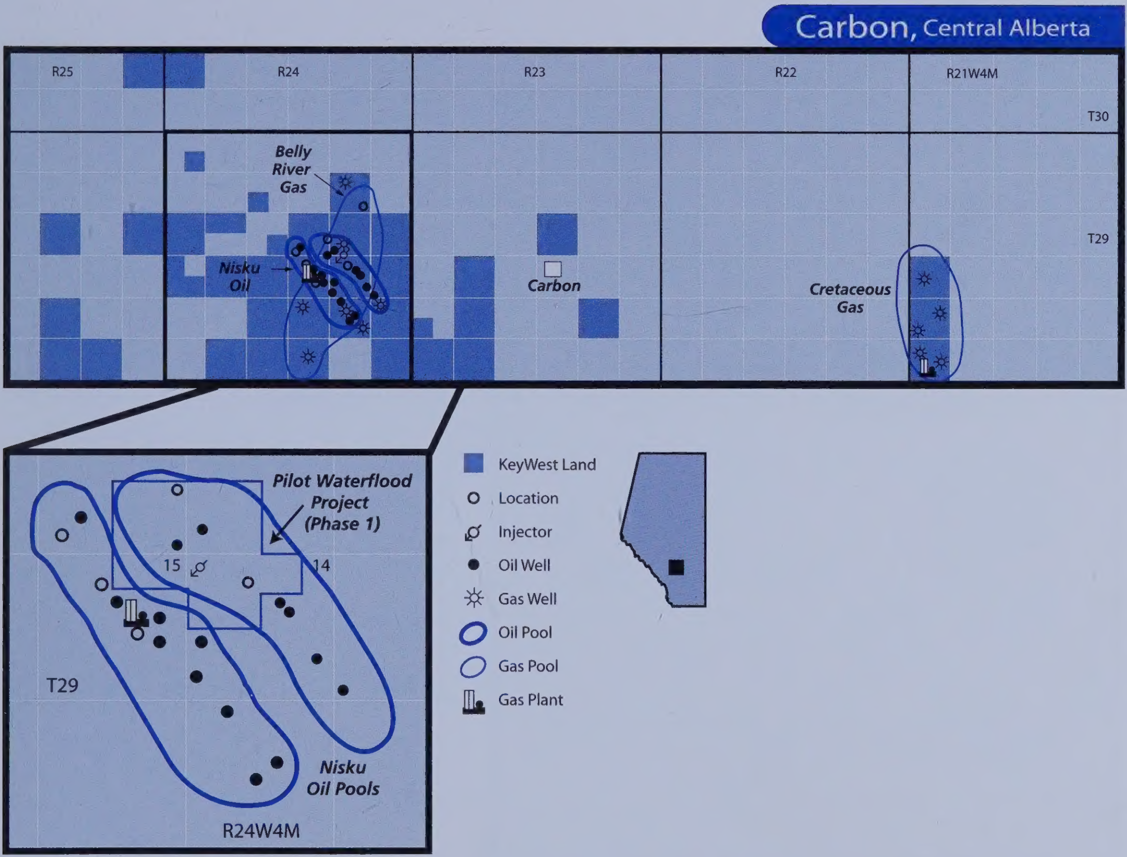
On behalf of the Board of Directors,

Harold V. Pedersen
President
March 15, 2001

Operations Review

Mary C. Blue
Executive Vice-President

KeyWest's primary objective is to generate profitable growth through a strategic combination of mergers, acquisitions and drilling opportunities. The Company's operating strategy is to establish quality, long-term oil and gas assets with upside potential in focus areas. KeyWest operates its main properties and strives to maintain large interests. The Company generates its prospects internally and is emphasizing gas projects in order to develop more of a balance between oil and gas.



Prospect Review

Carbon, Central Alberta
Carbon was the first property acquired by KeyWest in mid-1999 and it is located 35 miles northeast of the City of Calgary. This is an established producing area with a full infrastructure of pipelines and facilities. Included in the purchase were two underutilized gas plants.

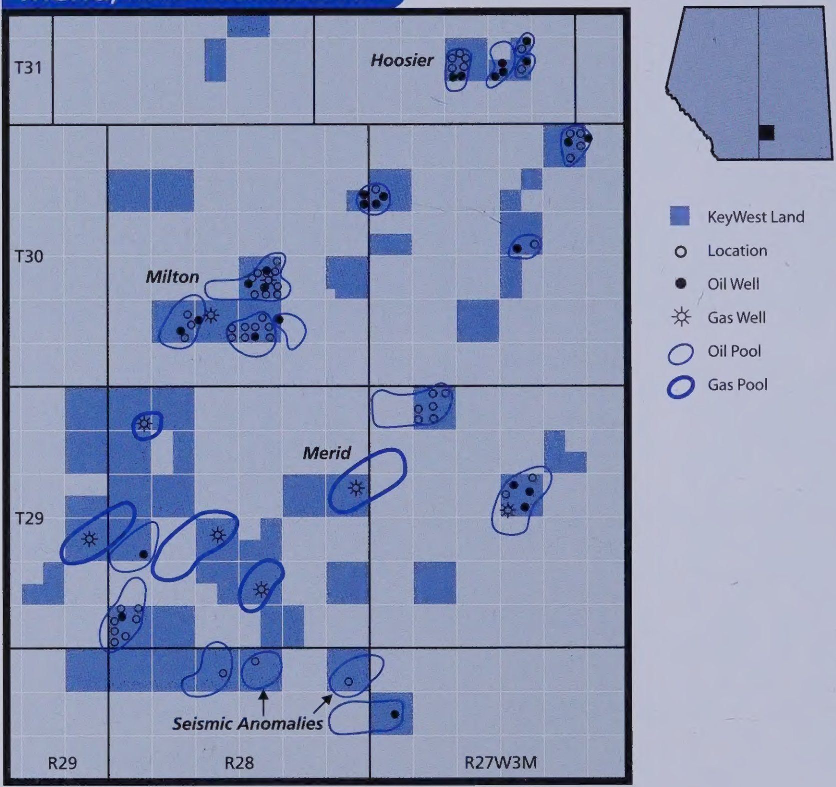
KeyWest operates this property with an average 87% interest in the producing wells. In addition, the Company owns a 79% interest in 4,394 undeveloped acres.

Light gravity 39° API oil is produced from two Nisku oil pools at a depth of 6,200 feet. Productive gas zones are encountered at various depths between 1,200 and 4,600 feet.

Production at the time of purchase was 727 boepd comprising 3.1 mmcf/d of gas and 210 bbls/d of oil and ngls. KeyWest's current production has increased to 1,117 boepd (69% gas) as a result of additional drilling, recompletions of some shallow by-passed gas pay in existing wells, and the use of bigger pumps in some of our oil wells.

KeyWest anticipates further significant production increases this year, particularly from the oil pools. The Company plans to continue installing larger oil pumps for even greater volume capability. The result will be higher volumes of both oil and water (for which additional water handling facilities are also being installed). Increased water production from the west pool will be injected into the adjacent east pool where governmental approval has been given to a waterflood program. This is significant because the current recovery factor in the east pool is only 6% of the oil-in-

Merid, Western Saskatchewan



place, whereas the offsetting west pool has recovered 33% of the oil-in-place due to an active water drive. By injecting water into the east pool and repressurizing the reservoir we expect to see significant volume and reserve increases within six months to a year. With success on the first waterflood we will move into the southerly part of the east pool where we will implement a second waterflood. Additional drilling locations are also likely.

Merid – Western Saskatchewan
Merid is an exploration oil and gas project located inside the western boundary of the Province of Saskatchewan approximately 180 miles east of Calgary. The Company began shooting seismic and acquiring land in the fall of 1999 and drilled its first well on the play in December 1999. The productive gas and oil zones are at depths of 2,500 to 2,800 feet. Through its extensive 2-D seismic base in this area KeyWest has identified a number of separate and distinct seismic features. Over the past year the Company drilled 13 successful wells on the property – nine oil wells and four gas wells.

In addition, the Company acquired a small private company called Viewpoint Resources Ltd., whose main assets were lands and production in the Merid area. Viewpoint had production of 360 boepd which was 55% gas.

KeyWest's current production from the Merid area is 720 boepd which is 58% gas. The Company has a number of oil development locations to drill as well as exploratory gas locations identified on seismic. Some 15 wells will be drilled this year.

The Company continues to acquire land in the area and currently has an average 63% interest in 24,782 undeveloped acres.

Chin Coulee, Southern Alberta

Bruce M. Beynon
Vice-President,
Exploration

Chin Coulee, Southern Alberta
Chin Coulee is KeyWest's largest property and has been our most active area over the past year. It is located 120 miles southeast of Calgary and about 45 miles north of the Montana border. This property was acquired in September 1999. KeyWest purchased a 100% interest in a small Mannville oil pool and six Jurassic Sawtooth oil wells producing at a depth of 3,200 feet. Production at the time of purchase was 400 bopd of medium gravity 24° API oil. KeyWest drilled six wells in 1999 and another 17 successful oil wells in 2000. The Company has extensive 3-D seismic over the oil pools and drilling success is directly correlatable to the seismic. As a result, current production from this project now exceeds 1,600 bopd. KeyWest has also made significant progress in reducing its operating costs on this project. At the time of purchase, operating costs were over $9.30 per barrel. Costs have now been reduced to $3.60 per barrel through the installation of centralized facilities and by flowline-connecting all wells to eliminate trucking costs.

The production facilities are now being upgraded again to handle significantly more fluid with the produced water being recycled back into the reservoir. Production will be further expanded this year with plans to drill another 15 wells in the area.

This has proven to be an outstanding project for KeyWest and it continues to have tremendous upside.

Thom Vysohlid
Land Manager

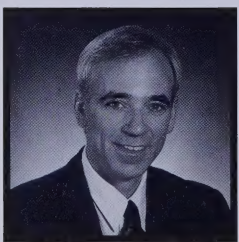
Land

KeyWest's land purchases over the past year were geared toward expanding its core properties as well as establishing land positions in new exploration areas where the Company plans to drill in 2001. By actively participating at Crown land sales during 2000, KeyWest increased its strategic undeveloped landholdings by 131% to 58,938 net acres. The Company now holds an average 73% working interest in its undeveloped acreage. These lands were valued at $4.48 million by the independent consulting firm of Seaton Jordan & Associates Ltd. in their report dated February 27, 2001.

KeyWest will continue to aggressively build its land inventory in 2001 as the Company's exploration group develops new prospect areas.

Undeveloped Land

	2000		1999	
Acres	**Gross**	**Net**	Gross	Net
Alberta	**45,361**	**35,844**	31,667	23,503
British Columbia	**2,810**	**937**	2,127	1,064
Saskatchewan	**32,275**	**22,157**	2,810	937
Total	**80,446**	**58,938**	36,604	25,504
Value of net acres ($millions)		**$ 4.48**		$ 4.28
Average working interest		**73%**		70%



Orest V. Massitti
Drilling & Production Manager

Drilling

KeyWest drilled 45 wells during 2000 with an average working interest of 94%. The Company's oil drilling activity focused on the Chin Coulee area with encouraging results. Seventeen of KeyWest's 27 successful oil wells were drilled at Chin Coulee, nine were drilled at Merid and one was drilled at Carbon. In addition four successful gas wells were drilled at Merid. The Company's overall drilling success rate was 78%.

KeyWest plans to drill at least 50 wells in 2000 with an average interest of over 90%. These wells will be located in our three core areas and in two new exploration areas, balancing development drilling with low to medium risk exploration drilling. Exploration will account for approximately 45% of the program. The new exploration drilling will target gas to improve the balance between our oil and gas production.

Drilling Activity – Wells Drilled

	2000		1999	
Years Ended December 31	**Gross**	**Net**	Gross	Net
Oil	**27**	**24.5**	7	7.0
Gas	**4**	**4.0**	5	4.6
Service	**4**	**4.0**	–	–
Dry	**10**	**9.6**	3	1.6
Total	**45**	**42.1**	15	13.2
Exploratory	**15**	**14.3**	4	2.2
Development	**30**	**27.8**	11	11.0
Total	**45**	**42.1**	15	13.2
Average Working Interest		**94%**		88%

Production

KeyWest's oil production rose 296% in 2000 to reach 1,489 bbls per day compared to 376 bbls per day in the previous year, mainly due to the Chin Coulee and Merid development programs. Natural gas production increased 149% to 6.89 mmcf per day from 2.76 mmcf per day in 1999. This increase was achieved by adding new gas production at Carbon and Merid. Production totals will continue rising in 2001 as the Company accelerates its drilling program.

On a barrel equivalent basis (6 mcf = 1 bbl), the Company's 2000 production volumes were weighted 56% to oil and 44% to gas.

KeyWest operates 94% of its oil production and 76% of its gas production.

During the year the Company spent $5.1 million on production facilities and pipelines. Approximately 70% of the total was spent at Chin Coulee, and 24% at Carbon. The largest expenditure, $3.6 million, was at Chin Coulee, where the Company installed a central production facility to separate oil and water and to recycle the water production back into the reservoir. In addition, all of the producing wells at Chin Coulee were pipelined to the central battery and an oil sales line was built to the main oil transmission line in order to eliminate trucking costs. At Carbon the Company rerouted its gas sales line north to the ATCO sales system, reducing operating costs by $0.18 per mcf. Operating days also increased as a result from 90% to 99%. As a consequence of the facility work and pipeline connections at Chin Coulee and the new gas sales line at Carbon, the Company reduced costs by 14% to $4.03 per boe versus $4.68 per boe in 1999.

Major Properties – Production

The following table sets out KeyWest's net average daily volumes, before royalties, attributable to its major producing properties.

Oil

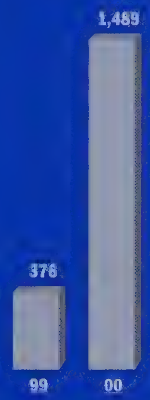
	2000		1999	
Property	**bbls/d**	**% of Total**	bbls/d	% of Total
Chin Coulee, AB	**1,146**	**77%**	195	52%
Carbon, AB	**264**	**18%**	152	40%
Merid, SK	**51**	**3%**	–	–
Other	**28**	**2%**	29	8%
Total	**1,489**	**100%**	376	100%

Natural Gas

	2000		1999	
Property	**mcf/d**	**% of Total**	mcf/d	% of Total
Carbon, AB	**5,169**	**75%**	2,401	87%
Merid, SK	**1,517**	**22%**	–	–
Other	**207**	**3%**	362	13%
Total	**6,893**	**100%**	2,763	100%

Steve Sugianto
Vice-President,
Engineering & Corporate
Development

Daily Oil Production
(bbls)



Daily Gas Production
(mcf)

Reserves

KeyWest's reserves were evaluated by the independent engineering firm of Gilbert Laustsen Jung Associates Ltd. of Calgary, Canada in their report effective January 1, 2001.

Proven oil reserves increased 116% in 2000 to 6.21 mmbbls from 2.87 mmbbls in 1999. Proven and probable oil reserves were up 98% to 7.51 mmbbls from 3.79 mmbbls in the previous year.

Proven gas reserves were up 20% in 2000 to 16.37 bcf from 13.64 bcf a year earlier. Proven and probable gas reserves increased 21% to 21.88 bcf from 18.06 bcf in 1999.

The Company's drilling program resulted in 83% of the proven reserves increase while the remaining additions were through acquisitions. The oil reserves were added mainly at Chin Coulee and the gas reserves were added at Merid.

On a proven boe reserve basis, the Company replaced 494% of 2000 production. On a proven plus probable basis, KeyWest replaced 552% of 2000 production.

Oil and Gas Reserves

	Gross Reserves		Net Reserves		Present Worth ($000's) Discounted at the Rate of	
	Oil	Gas	Oil	Gas		
December 31, 2000	mbbls	mmcf	mbbls	mmcf	10%	15%
Proven Reserves						
Producing	5,341	15,447	4,465	11,511	85.1	75.0
Non-Producing	224	472	186	382	5.6	5.0
Undeveloped	643	451	538	316	4.7	3.5
Total Proven	6,208	16,370	5,189	12,209	95.4	83.5
Probable Reserves	1,302	5,507	1,085	4,122	7.4	5.6
Total Proven Plus Probable	7,510	21,877	6,274	16,331	102.8	89.1

Values shown are calculated on a before tax basis and include the Alberta Royalty Tax Credit (ARTC). The present value of the probable reserves is risked at 50%. Gross reserves are the Company's reserves before the deduction of any royalties.

The pricing forecasts used in Gilbert Laustsen Jung's engineering evaluation are as follows:

	Crude Oil US $/bbl	Natural Gas Cdn. $/mmbtu
2001	$27.00	$7.30
2002	$24.00	$5.40
2003	$21.00	$4.60
2004	$21.00	$4.45
2005	$21.25	$4.20
2006	$21.75	$4.10
	+ 1.5%/yr. thereafter	+0.7%/yr. next 5 yrs. +1.5%/yr. thereafter

Crude oil price is WTI at Cushing, Oklahoma. Natural gas is the average spot price at Alberta Plant Gate.

Reconciliation of Reserves

The following table provides a summary of the changes in KeyWest's gross reserves(1) during the past year:

	Oil (mbbls)			Natural Gas (mmcf)		
Reserves	Proven	Probable	Total	Proven	Probable	Total
As at December 31, 1999	2,870	920	3,790	13,640	4,420	18,060
Drilling	3,067	90	3,157	2,867	1,026	3,893
Acquisitions	539	252	791	1,700	470	2,170
Revisions	276	40	316	680	(410)	270
Total Additions	3,882	382	4,264	5,247	1,086	6,333
Production	(544)		(544)	(2,516)		(2,516)
Dispositions	–	–	–	–	–	–
As at December 31, 2000	6,208	1,302	7,510	16,371	5,506	21,877

(1) Gross reserves are the Company's reserves before the deduction of any royalties.

Reserve Life Index

KeyWest's reserve life index, comparing total reserves and production for the 1999 and 2000 fiscal year-ends, is as follows:

	2000		1999	
Years	**Proven**	**Probable**	Proven	Probable
Oil	**7.6**	**9.2**	7.9	10.4
Gas	**5.9**	**7.9**	5.8	7.6
Combined	**7.0**	**8.7**	6.8	8.9

Net Asset Value

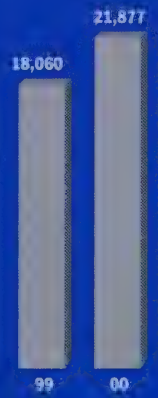
KeyWest's net asset value has steadily increased since start-up. The Company's year-end 1998 net asset value, which was comprised of cash only, amounted to $0.63 per share. By year-end 1999, KeyWest had become an operational oil and gas company and its net asset value had risen to $1.13 per share, despite a large increase in the number of shares outstanding. At year-end 2000 the net asset value had further increased to $2.13 per share.

The following table shows year-end net asset values at different discount rates:

	2000 Present Worth Discount		1999 Present Worth Discount	
Reserve Value ($000's)	**10%**	**15%**	10%	15%
Proven plus 50% of probable reserves	**102,750**	**89,150**	$41,600	$35,800
Add: Land value	**4,480**	**4,480**	4,280	4,280
Add (deduct): Working capital	**(4,751)**	**(4,751)**	7,752	7,752
Net asset value	**102,479**	**88,879**	53,632	47,832
Net asset value per share	**$ 2.13**	**$ 1.85**	$ 1.13	$ 1.01

Oil Reserves
(mbbls)

Gas Reserves
(mmcf)



Finding and Development Costs

KeyWest's finding and development costs are among the lowest in the industry and reflect the efficiency and value added by the Company's capital spending. These calculations include all capital costs incurred during the year by the Company.

	2000	1999
Total Capital Expenditures ($million)	$ 30.7	$ 29.2
Proven reserves (mboe)	4,756	5,379
F & D Cost ($/boe)	$ 6.45	$ 5.44
Proven plus 50% of probable reserves (mboe)	5,038	6,208
F & D Cost ($/boe)	$ 6.09	$ 4.71

Recycle Ratio

The recycle ratio is a measure of a Company's efficiency at replacing its produced reserves financed by the cash flow generated by that production. The following table shows KeyWest's recycle ratio. KeyWest's recycle ratio of 2.84 compares very favorably with industry ratios.

	Cash flow/boe	÷	Finding Cost	=	Recycle Ratio
1999	$12.09/boe	÷	$5.44	=	2.22
2000	$ 18.31/boe	÷	$6.45	=	2.84

Marketing

Ruth A. DeGama
Manager Production Services

Oil and Ngls

As a result of higher world oil prices, KeyWest was paid an average of Cdn. $31.52 per bbl for its oil and ngls in 2000, up from $26.23 per bbl in 1999. KeyWest's average oil and ngls production during the year was 1,489 bbls per day produced from Carbon (39° API), Chin Coulee (24° API), and Merid (15° API). The ngls are produced from Carbon. Conventional light and medium gravity oil accounted for 1,353 bbls per day or 91% of the total, gas liquids (ngls) production averaged 87 bbls per day (6%) and heavy oil represented 49 bbls per day or 3% of the total oil produced.

During 2000, KeyWest continued to market the majority of its conventional crude oil on 30 day evergreen contracts, while ngls were sold under a combination of 30 day contracts and a one year contract. In addition, KeyWest contracted with PanCanadian to deliver 400 bbls per day or 27% of its average oil production at a Nymex (West Texas) price of US $22.14 per bbl from January 1 to December 31, 2000.

All 2001 oil production is now sold under 30 day evergreen contracts, primarily through PanCanadian.

As medium and heavy oil differentials started to increase in mid-October 2000, KeyWest implemented a financial hedge covering fiscal 2001 to lock in the differential price (West Texas to Bow River, Alberta) on 500 bopd at US $8.25 per bbl. The Company plans to implement additional differential hedges to mitigate the impact of seasonal fluctuations.

Oil prices have remained resilient and are expected to hold above US $25.00 per barrel in the face of continued cooperation by OPEC member states in managing their production rates.

Natural Gas
KeyWest's 2000 natural gas price averaged Cdn. $5.37 per mcf.

During 2000, KeyWest sold 65% of its gas on the spot market and 2.86 mmcf/d, or 35% of its gas, under contract to PanCanadian. The PanCanadian contract yielded an average wellhead price of Cdn. $2.94 per mcf during its term, which expired October 31, 2000. The gas was then sold on the spot market.

KeyWest signed a five year gas transportation contract with ATCO for 2.29 mmcf/d declining to 0.95 mmcf/d in the fifth year. This contract will reduce the 2001 gas gathering cost from the Carbon area by over $100,000 or $0.18 per mcf. The balance of the Company's gas is moved under agreements with the gas buyers, primarily Promark and PanCanadian.

KeyWest has a financial contract in place for 5.7 mmcf/d at Cdn. $13.50 per mcf for February and March, 2001. The balance of KeyWest's gas in 2001 has to-date been sold on the spot market.

Natural gas prices rose to record highs this winter, propelled by an early cold snap. The outlook for gas prices is strong although we expect some price moderation as economic growth slows across North America and winter-related demand recedes.

Environmental and Safety Program
KeyWest is committed to protecting the health and safety of our employees and the public, as well as preserving the quality of the environment. The Company has formal safety and environmental procedures in place to ensure the safe operation of our wells, surface facilities, gas plants and pipelines.

Environmental and safety legislation in Western Canada has undergone major revisions in recent years resulting in more stringent standards and compliance levels. The Company is committed to operating in a manner that meets or exceeds the required standards and compliance guidelines.

During the latter part of 2000, independent consultants performed detailed safety and environmental audits at the Company's three operating locations, with positive results. The Company will manage this process on an ongoing basis to ensure it remains in compliance with all regulatory requirements.

Management's Discussion and Analysis

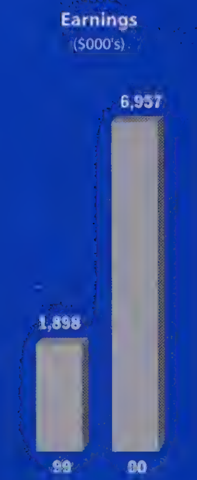
The following discussion and analysis of financial results should be read in conjunction with the financial statements for the year ended December 31, 2000 and is based on information available as at March 15, 2001. Information provided herein for fiscal 2001 is based on assumptions regarding future events and may be subject to change.

Overview

KeyWest achieved excellent financial results in 2000 that were attributable to significantly increased production volumes and higher product prices. As a consequence, cash flow and earnings rose dramatically. The majority of the Company's growth in 2000 resulted from drilling activities in KeyWest's three core areas whereas the Company's initial growth in 1999 was attributable to a combination of property acquisitions and drilling activities.

Cash Flow and Earnings Summary

$000's (except per share numbers)	2000	1999
Cash flow from operations	$ 17,631	$ 3,692
Cash flow from operations per share (basic)	$ 0.37	0.10
Earnings	$ 6,957	1,898
Earnings per share (basic)	$ 0.15	0.05



Oil and Gas Revenue

As a result of the Company's successful drilling program and higher product prices, oil and gas revenues increased 352% to $30.6 million from $6.8 million in 1999. The revenue contributions were 56% oil and 44% gas compared to 53% oil and 47% gas in the prior year.

KeyWest's average oil price was up 20% to $31.52 per bbl versus $26.23 per bbl for 1999. The Company's average gas price was 71% higher at $5.37 per mcf, compared to $3.14 per mcf in 1999.

The oil netback increased 49% to $20.86 per bbl from $13.99 per bbl in 1999. This increase is due to higher prices and considerably improved operating costs. The gas netback increased 71% to $3.33 per mcf as

compared to $1.95 in 1999. The major factor in the improved gas netback was higher product prices.

KeyWest's rapid growth continues with a projected 56% increase in 2001 production revenues to approximately $48 million. This forecast is based on production volumes increasing to 3,830 boepd and assumes a West Texas Intermediate oil price of US $25 per bbl and a gas price of Cdn. $6.75 per mcf.

Carrie McLauchlin
Vice-President, Finance & Chief Financial Officer

Oil and Gas Analysis

($000's)	Oil	Gas	Total
Fiscal 1999 revenue	$ 3,598	$ 3,185	$ 6,783
Effect of increase in product price	2,878	5,560	8,438
Effect of increase in production volume	10,660	4,760	15,420
Fiscal 2000 revenue	17,136	13,505	30,641
% of total revenue – 1999	53%	47%	100%
% of total revenue – 2000	56%	44%	100%
% of production volume – 1999	45%	55%	100%
% of production volume – 2000	56%	44%	100%
Average price – 1999	$ 26.23/bbl	$ 3.14/mcf	$ 22.21/boe
Average price – 2000	$ 31.52/bbl	$ 5.37/mcf	$ 31.82/boe

Oil Netbacks

(per bbl)	**2000**	1999	% Change
Sales revenue	**$ 31.52**	$ 26.23	20
Royalties	**(6.67)**	(6.46)	(3)
Operating costs	**(3.99)**	(5.78)	31
Netback	**$ 20.86**	$ 13.99	49
Royalty percentage	**21%**	25%	16
Daily sales volumes – bbl/d	**1,489**	376	296

Natural Gas Netbacks

(per mcf)	**2000**	1999	% Change
Sales revenue	**$ 5.37**	$ 3.14	71
Royalties	**(1.54)**	(0.64)	(141)
ARTC	**0.17**	0.08	113
Operating costs	**(0.67)**	(0.63)	(6)
Netback	**$ 3.33**	$ 1.95	71
Royalty percentage	**29%**	20%	45
Daily sales volumes – mcf/d	**6,893**	2,763	149

Royalties

Oil and gas royalties, net of the Alberta Royalty Tax Credit (ARTC), were $7.1 million as compared to $1.5 million in 1999. Royalties as a percentage of revenue increased from 21% in 1999 to 23% in 2000, primarily due to higher product prices. Gas royalties as a percentage of sales increased from 20% in 1999 to 29% in 2000 due to the sharp increase in gas prices. The increase in gas royalties was further impacted by the Company's sales contract on 3 mmcf/d of gas. While the gas was contracted at $2.95 per mcf, royalties were required to be paid based on an average Alberta Reference Price of $3.90 per mcf. Oil royalties as a percentage of sales decreased from 25% to 21% due to greater production volumes from Chin Coulee which benefits from a lower freehold royalty rate of 21%. KeyWest's oil sales contract on 400 bopd did not impact royalties as the Crown takes its oil "in kind."

ARTC for 2000 was $438,592 as compared to $78,000 in 1999. The increase results from a full 12 months of oil and gas operations in 2000 versus eight months in 1999.

Based on forecasted product prices in 2001, the Company expects the corporate royalty rate to increase to 25%.

Operating Expenses

Operating expenses increased to $3.9 million last year as compared to $1.4 million in 1999. On a barrel of oil equivalent basis, operating costs decreased 14% to $4.03 as compared to $4.68 in 1999. The decrease results from the flowline and facility work at Chin Coulee which reduced trucking and equipment rental costs. Gas transmission costs were reduced at Carbon with a new sales line. Efficiencies related to economies of scale also resulted from the growth in production volumes.

Operating costs are expected to increase in 2001 to $4.85 per boe due mainly to rising power costs.

General and Administrative Expenses

Net general and administrative expenses increased to $2 million as compared to $1.1 million in 1999. On a boe basis, general and administrative expenses decreased 42% to $2.09 per boe from $3.63 per boe. Although the Company's staff increased in fiscal 2000 this was more than offset by higher production volumes which resulted in lower unit costs. Overhead recoveries on operated properties increased 205% from last year due to the increased activity in capital projects undertaken in fiscal 2000. The following table summarizes general and administrative expenses:

$000's	2000	1999
Gross expense	$ 2,389	$ 1,231
Overhead recoveries	(375)	(123)
Net expense	$ 2,014	$ 1,108

Depletion and Depreciation

The Company's depletion and depreciation expense increased to $6.1 million from $1.8 million; however, on a boe basis it only increased 6% to $6.29 from $5.91 in 1999. The depletion rates are similar year over year as a result of comparable finding and development costs. Depletion and depreciation for 2000 includes a provision for future site restoration of $317,800 or $0.33 per boe. This is an increase from $51,000 or $0.21 per boe in 1999 and is due to a significant increase in the number of wells and higher well abandonment estimates.

Income Taxes

Current taxes for 2000 and 1999 are related exclusively to the federal Large Corporations Tax and the Saskatchewan Resource Surcharge. The increase to $196,938 from $60,000 in 1999 is due to the increase in the size of the Company's capital base and the inception of revenues from Saskatchewan properties.

The total tax provision as a percentage of pre-tax earnings was 40.9% compared to 3% last year. The 1999 tax provision was minimal due to the utilization of available tax losses. The current year provision approximates the expected corporate tax rate. The total tax provision as a percentage of pre-tax earnings in 2001 is expected to be comparable to fiscal 2000.

The following table summarizes the approximate tax pools available to KeyWest as of December 31, 2000:

($000's)	
Canadian oil and gas property expense	$ 15,980
Canadian development expense	9,360
Canadian exploration expense	130
Undepreciated capital cost	12,370
Share issue costs	730
Other	430
	$ 39,000

Cash Flow from Operations and Earnings

Cash flow from operations was $17.63 million in 2000 which is a 378% increase over $3.69 million achieved in 1999. Two-thirds of the increase resulted from increased production volumes and one-third was attributable to higher product prices. Cash flow per share increased 270% to $0.37 per share in 2000. On a netback basis, cash flow was $18.31 per boe versus $12.09 per boe one year ago, which is a 51% improvement.

The increase in cash flow resulted in a 267% improvement in earnings to $6.9 million as compared to $1.9 million in 1999. On a per share basis, earnings tripled to $0.15 from $0.05.

KeyWest expects 2001 cash flow to be approximately $26 million ($0.55 per share) based upon a West Texas Intermediate oil price of US $25 per bbl and a gas price of Cdn. $6.75 per mcf. The anticipated increase over 2000 is largely because of projected volume increases.

In 2001, KeyWest's cash flow and earnings sensitivities to pricing and foreign exchange are estimated as follows:

	Cash Flow		Earnings	
	000's	Per share	000's	Per share
Product prices change by:				
Oil – $1.00 US/bbl	$ 1,000	$ 0.02	$ 578	$ 0.01
Gas – 10¢ Cdn./mcf	$ 213	$ 0.00	$ 122	$ 0.00
$US/$Cdn. exchange rate changes by 1¢	$ 267	$ 0.00	$ 152	$ 0.00

Capital Expenditures

Capital expenditures totalled $30.7 million in 2000, up 5% from $29.2 million in 1999. Although the annual totals are similar, the Company's growth in 2000 came largely from drilling whereas acquisition activities were the main growth driver in 1999.

The following table sets out the Company's actual capital cash expenditures.

($000's)	**2000**	1999
Land	**$ 2,435**	$ 308
Seismic	**1,696**	848
Drilling and equipping	**17,055**	6,472
Facilities and flowlines	**5,157**	901
Corporate	**108**	160
	26,451	8,689
Acquisitions	**4,274**	20,560
	$ 30,725	$ 29,249

In addition to the $30.7 million in cash outlays for capital expenditures, $1.6 million was charged to capital assets as a result of future tax adjustments. The Company's 2001 capital expenditure program is estimated to be $37 million, and will be financed by a combination of cash flow and bank borrowings.

Liquidity and Capital Resources

KeyWest's capitalization increased 90% in 2000 to $87.3 million from $45.8 million in 1999. Included in the total is a working capital deficiency of $4.8 million compared to positive working capital of $7.8 million in 1999.

The market value of KeyWest's shares represents 86% of the total capitalization, versus 117% in 1999. The Company issued 1.8 million shares and paid 1.9 million cash to acquire Viewpoint Resources Ltd. on September 1, 2000.

Pursuant to its normal course issuer bid, KeyWest repurchased and cancelled 1,347,500 (1999 – 471,800) common shares at a cost of $1.6 million (1999 – $0.4 million). The

Company believes that when the underlying value of its common shares is not reflected in market price, the share purchase program provides value by reducing the number of common shares outstanding. The Company anticipates ongoing share repurchases under its issuer bid during 2001 which will be funded from cash flow.

Capitalization

At December 31, 2000 ($000's)	2000	%	1999	%
Common share equity at market	$ 74,649	86	$ 53,579	117
Net debt	4,751	5	(7,752)	(17)
Future taxes	7,876	9	–	–
	$ 87,276	100	$ 45,827	100

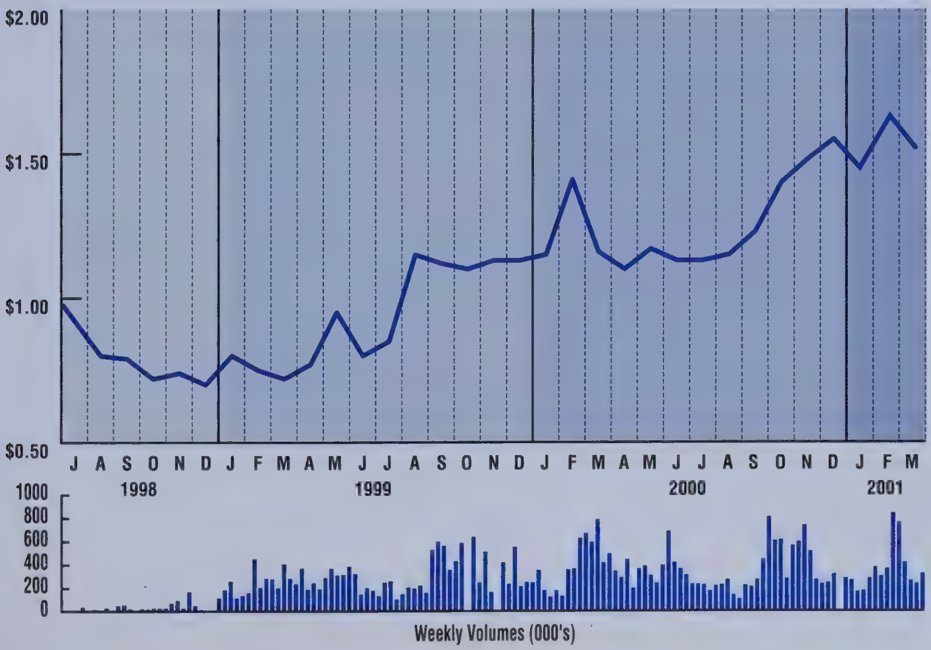
At December 31, 2000 KeyWest had a working capital deficiency of $4.8 million which included short-term debt of $871,185.

Capital expenditures of $37 million for 2001 will be funded by cash flow and bank debt. Forecasted year-end 2001 debt is $17 million or about 0.7 times projected 2001 cash flow, well below the Company's guidelines of limiting its long-term debt to two times estimated cash flow. KeyWest's current borrowing facility is $40 million.

Share Information

As at December 31, 2000 there were 48,160,575 shares issued and outstanding which represents a minor increase of 2% over the number of shares outstanding in the previous year. The weighted average number of shares outstanding for 2000 was 47,423,114. KeyWest's shares trade on the Toronto Stock Exchange under the symbol KWE.

Stock Market Performance ($ per share)



Accounting Changes

The CICA has approved a new Handbook section on Earnings Per Share. The new section brings Canadian requirements in line with US and international standards. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of warrants, options and equivalents on per share earnings. Under the treasury stock method, it is assumed that proceeds from the exercise of outstanding stock options are used to purchase common shares at the average market price during the period. Effectively, only "in the money" stock options are included in diluted earnings and cash flow from operations per share calculations. The Company adopted the new recommendations in the fourth quarter of fiscal 2000, restating all prior period per share information to conform with the new recommendations.

Business Risks

KeyWest operates in a business environment that is subject to numerous risks, some of which are within the Company's ability to manage and some of which are beyond its control. By adhering to its effective business strategies, KeyWest can manage those risks within its control and partially mitigate the risks that are associated with the industry.

The prospect of finding oil and gas reserves in commercial quantities is inherently uncertain, and significant financial resources must be employed before production can be brought onstream. To minimize this risk, KeyWest has employed a team of highly qualified explorationists to balance the risks with the rewards. The Company focuses on exploring new areas to find reservoirs and to this end, extensive geological and geophysical analyses are performed prior to drilling. Once an area is targeted, the Company strives to build an extensive land base and maintain high working interests in its prospects. KeyWest also mitigates its risk by employing a technically strong team of engineers to acquire and exploit core properties to complement its exploration efforts. These risks are further reduced as KeyWest operates most of its production.

Where capital resources are concerned, the Company strives to maintain a balance between the use of cash flow, equity markets and debt. Since the equity markets are somewhat limited at this time for junior companies, the 2001 capital program will be funded with cash flow and debt. The Company has significant unused credit lines; however, it will not let its debt exceed two times cash flow.

Once reserves are brought on stream, there are risks associated with transportation and markets for oil and gas, especially for a junior oil and gas company. To reduce these risks, KeyWest markets most of its oil and gas with one major energy company. In addition, KeyWest maintains a portfolio of both oil and gas assets to minimize the risks associated with changing market conditions.

Commodity price volatility is also a significant risk to oil and gas producers. Prices for oil and gas are related to conditions beyond the Company's control such as worldwide supply and demand, competition, the US dollar exchange rate and weather related seasonal changes in demand. KeyWest maximizes cash netbacks by working to reduce its operating costs and being as efficient as possible in terms of general and administrative expenses. From time to time the Company also uses fixed price contracts and financial products to mitigate the risk of price volatility.

The industry is subject to extensive regulations imposed by governments related to the protection of the environment. Environmental legislation in Western Canada has undergone major revisions resulting in more stringent environmental and compliance standards in recent years. The Company is committed to operating in a manner that meets or exceeds the required standards and compliance guidelines. In addition, the Company strives to minimize the impact of the Company's activities on the environment by using the best available technologies.

Quarterly Review

($000's except per share amounts)

2000	Gross Production Revenue	Cash Flow From Operations	Per Share(1)	Earnings	Per Share(1)
Q1	**4,880**	**2,707**	**$0.06**	**848**	**$ 0.02**
Q2	**6,049**	**3,652**	**$0.08**	**1,359**	**$ 0.03**
Q3	**7,909**	**5,024**	**$0.11**	**2,031**	**$ 0.04**
Q4	**11,803**	**6,248**	**$0.13**	**2,719**	**$ 0.06**
Total	**30,641**	**17,631**	**$0.37**	**6,957**	**$ 0.15**
1999					
Q1	–	83	$0.00	79	$0.00
Q2	788	585	$0.02	377	$0.01
Q3	2,217	1,142	$0.03	523	$0.01
Q4	3,778	1,882	$0.04	919	$0.02
Total	6,783	3,692	$0.10	1,898	$0.05

(1) The sum of the quarterly per share amounts may not equal the annual per share amounts due to the different weightings of shares issued during the year.

Three Year Review

		2000		1999		1998
Operating						
Production						
Oil – bopd		**1,489**		376		–
Gas – mcf/d		**6,893**		2,763		–
Product Prices						
Oil – $/bbl	**$**	**31.52**	$	26.23		–
Gas – $/mcf	**$**	**5.37**	$	3.14		–
Reserves						
Oil – mbbls		**7,510**		3,790		–
Gas – mmcf		**21,877**		18,060		–
Drilling Activity						
Oil wells		**27**		7		–
Gas wells		**4**		5		–
Service wells		**4**		–		–
Total wells		**45**		15		–
Net wells		**42**		13		–
Undeveloped land						
Net acres		**58,938**		25,504		–
Financial ($000's except share numbers)						
Gross production revenue	**$**	**30,641**	$	6,783		–
Cash flow from operations	**$**	**17,631**	$	3,692	$	(30)
per share (basic)	**$**	**0.37**	$	0.10	$	(0.01)
Earnings	**$**	**6,957**	$	1,898	$	(147)
per share (basic)	**$**	**0.15**	$	0.05	$	(0.01)
Average shares outstanding		**47,423**		37,782		18,938
Capital expenditures						
Exploration & development	**$**	**26,451**	$	8,689	$	9
Acquisitions	**$**	**4,274**	$	20,560	$	–
Working capital	**$**	**(4,751)**	$	7,752	$	19,936
Long-term debt	**$**	**–**		–		–
Shareholders' equity	**$**	**41,632**	$	35,203	$	19,972

Management's Report

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information in the annual report. The integrity of the consolidated financial statements is the responsibility of management and, to this end, management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce reliable accounting records.

External auditors appointed by the shareholders have conducted an independent examination of the consolidated financial statements. Their report is presented below. The Audit Committee, consisting of external directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements of KeyWest which are contained in this annual report.

Harold V. Pedersen
President

Carrie L. McLauchlin
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of KeyWest Energy Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 9, 2001

Consolidated Balance Sheets

As at December 31	2000	1999
Assets		
Current assets:		
Cash and term deposits	$ –	$ 10,722,778
Receivables	6,530,403	2,735,819
	6,530,403	13,458,597
Capital assets (note 3)	54,071,629	27,528,834
	$ 60,602,032	$ 40,987,431
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 871,185	$ –
Accounts payable and accrued liabilities	10,410,715	5,706,564
	11,281,900	5,706,564
Provision for site restoration	443,488	77,600
Future taxes (note 7)	7,244,644	–
Shareholders' equity:		
Share capital (note 5)	33,805,297	33,662,698
Retained earnings	7,826,703	1,540,569
	41,632,000	35,203,267
	$ 60,602,032	$ 40,987,431

See accompanying notes to financial statements.

On behalf of the Board:

Director
Harold V. Pedersen

Director
Mary C. Blue

Consolidated Statements of Production, Operations and Retained Earnings

Years ended December 31	2000	1999
Production:		
Oil (mbbls)	544	137
Gas (mmcf)	2,516	1,008
Operations:		
Revenue:		
Oil and gas production	$ 30,641,470	$ 6,783,141
Royalties	(7,051,028)	(1,457,333)
Interest and other	152,698	975,470
	23,743,140	6,301,278
Expenses:		
Operating	3,876,387	1,428,456
General and administrative	2,013,630	1,108,478
Interest	25,202	–
Depletion and depreciation	6,054,550	1,806,284
	11,969,769	4,343,218
Earnings before taxes	11,773,371	1,958,060
Taxes (note 7):		
Current	196,938	60,000
Future	4,619,178	–
	4,816,116	60,000
Earnings	6,957,255	1,898,060
Retained earnings (deficit), beginning of year	1,540,569	(258,693)
Share repurchases (note 5(b))	(671,121)	(98,798)
Retained earnings, end of year	$ 7,826,703	$ 1,540,569
Weighted average number of common shares outstanding	47,423,114	37,781,672
Earnings per share – basic	$ 0.15	$ 0.05
– diluted	$ 0.14	$ 0.05

See accompanying notes to financial statements.

Consolidated Statement of Cash Flow

Years ended December 31	2000	1999
Cash provided by (used in):		
Operating:		
Earnings for the year	$ 6,957,255	$ 1,898,060
Items not affecting cash:		
Depletion and depreciation	6,054,550	1,806,284
Future taxes (note 7)	4,619,178	–
Gain on sale of marketable securities	–	(12,078)
Cash flow from operations	17,630,983	3,692,266
Change in non-cash working capital (note 8)	(2,451,265)	(1,128,236)
	15,179,718	2,564,030
Financing:		
Common shares issued, net of share issue costs (note 5)	138,587	8,582,008
Cash acquired in acquisitions (note 2)	–	4,102,886
Shares acquired and cancelled (note 5)	(1,629,659)	(405,286)
	(1,491,072)	12,279,608
Investing:		
Oil and gas property acquisitions	–	(19,209,767)
Corporate acquisition (note 2)	(1,870,753)	–
Expenditures on capital assets	(26,451,477)	(8,689,192)
Change in non-cash working capital	3,039,621	3,443,377
Proceeds on sale of marketable securities	–	60,000
	(25,282,609)	(24,395,582)
Decrease in cash	(11,593,963)	(9,551,944)
Cash position, beginning of year	10,722,778	20,274,722
Cash position, end of year	$ (871,185)	$ 10,722,778
Cash flow per share – basic	$ 0.37	$ 0.10
– diluted	$ 0.36	$ 0.10

Cash position includes cash and term deposits net of bank indebtedness.

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2000 and 1999

Keywest Energy Corporation Ltd. ("KeyWest" or the "Company") is engaged in the acquisition, exploration, development and production of oil and gas resources in Western Canada. The consolidated financial statements include the accounts of KeyWest Energy Corporation and Viewpoint Resources Ltd., a wholly owned subsidiary, and have been prepared in accordance with generally accepted accounting principles in Canada. In all material respects, these accounting principles are generally accepted in the United States except as described in Note 10.

1. Significant accounting policies:

(a) Joint interest operations:

A portion of the Company's exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical charges, carrying charges on non-productive properties and costs of drilling both productive and non-productive wells. General and administrative costs are not capitalized other than to the extent of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged equivalent to standard industry operating agreements.

The costs in each cost centre, including the costs of well equipment, are depleted and depreciated using the unit-of-production method based on the estimated proved reserves before royalties. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content of 6 to 1. The costs of acquiring and evaluating significant unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Gas plants and related facilities are depreciated on a straight-line basis over their useful lives, currently estimated to be 15 years.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and depreciation, site restoration provision and future income taxes of all cost centres is further limited to an amount equal to the future net revenue from proved reserves plus the cost (net of impairments) of unproved properties of all cost centres less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

(c) Future site restoration costs:

Estimated future site restoration costs are provided for on the unit-of-production method based on the estimated proved reserves before royalties. Costs are based on estimates in accordance with current legislation and industry practices. The annual charge is included in the provision for depletion and depreciation. Actual site restoration expenditures are charged to the accumulated provision account as incurred.

(d) Office furniture and equipment:

Depreciation of office furniture and equipment is provided using the straight-line method based on estimated useful lives.

(e) Stock based compensation plans:

Consideration paid by employees or directors on the exercise of stock options under the employee stock option plan is recorded as share capital. The Company matches employee contributions to a stock savings plan and these cash payments are recorded as compensation expense.

(f) Income taxes:

Effective January 1, 2000, the Company adopted the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to January 1, 2000, income taxes were accounted for by the deferral method of income tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the rate in effect in the year the difference originated.

(g) Foreign currency translation:

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at year-end while non-monetary assets and liabilities are translated at historical rates of exchange. Revenues, costs and expenses are translated at average rates of exchange prevailing during the period. Translation gains and losses are included in income except for unrealized gains and losses on long-term monetary items which are deferred and amortized over their remaining term.

(h) Per share amounts (note 6):

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares, including stock options, were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards.

(i) Use of estimates:

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(j) Comparative figures:

Certain prior period figures have been reclassified to conform with the current financial statement presentation.

2. Acquisitions:

On September 1, 2000, the Company issued 1,818,186 common shares with a fair value of $1,854,550 (based on an average trading share price of the common shares prior to the acquisition) and cash consideration of $1,870,753 in exchange for all the issued and outstanding shares of Viewpoint Resources Ltd., a private oil and gas company. This transaction is accounted for by the purchase method with the results of the operations of Viewpoint included from September 1, 2000.

Net assets acquired:	
Working capital deficiency	$ (171,212)
Capital assets	6,788,861
Provision for future site restoration	(48,087)
Future taxes	(2,694,259)
	$ 3,875,303

Consideration paid:	
1,818,186 common shares	$ 1,854,550
Cash	1,870,753
Acquisition costs	150,000
	$ 3,875,303

Effective June 1, 1999, the Company issued 7,063,512 common shares with a fair value of $5,156,000 (based on an average trading share price of the common shares prior to the acquisition) in exchange for all the issued and outstanding shares of Sequoia Exploration and Development Ltd., a private oil and gas company. This transaction is accounted for by the purchase method with the results of the operations of Sequoia included from the

effective date. The net assets acquired were: cash ($4,102,886), oil and gas properties ($1,349,622), future site restoration liability ($26,600) and assumed liabilities including deal costs ($269,908).

3. Capital assets:

	Cost	Accumulated depreciation	2000 Net book value	1999 Net book value
Petroleum and natural gas properties, including well equipment	$ 58,922,492	$ 7,134,871	$ 51,787,621	$ 25,132,372
Gas plants and related facilities	2,339,233	260,000	2,079,233	2,235,233
Office furniture and equipment	302,430	97,655	204,775	161,229
	$ 61,564,155	$ 7,492,526	$ 54,071,629	$27,528,834

At December 31, 2000, oil and gas properties included $1.3 million (1999 – nil) relating to unproved properties that have been excluded from depletion and depreciation calculations. Future development costs of proven undeveloped reserves of $5.2 million (1999 – $1.3 million) are included in depletion and depreciation calculations.

Future site restoration costs to be expensed over the life of remaining proved reserves are estimated to be $4.2 million at December 31, 2000 (1999 – $1.4 million).

4. Credit facility:

The Company has a $20 million production loan facility available with a major Canadian bank. Pursuant to the terms of the agreement, any amounts owing will revolve until April 30, 2001 and for a further period of 364 days thereafter at the option of the Company and with the consent of the bank. During the revolving phase, the loan has no specific terms of repayment. Loans under the facility may be made by way of prime based loans or by way of bankers' acceptances. A standby fee is levied on the unused portion of the facility.

Upon the expiration or termination of the revolving phase of the loan, any balance outstanding on the loan converts to a term loan, repayable in twenty equal quarterly installments.

The facility is secured by a first floating charge demand debenture over all of the Company's assets.

In March 2001 the production loan facility was increased to $40 million with similar terms and conditions as outlined above except, when converted to a term loan, the balance outstanding is repayable in sixteen equal quarterly installments.

5. Share capital:

The Company is authorized to issue an unlimited number of common shares together with an unlimited number of preferred shares issuable in series.

Common shares issued and outstanding:	Number of shares	Assigned Value
Balance, December 31, 1998	31,851,463	20,231,178
Shares issued on acquisition (note 2)	7,063,512	5,156,000
Exercise of warrants (d)	1,600,250	1,616,253
Exercise of stock options (e)	40,000	26,000
Shares acquired and cancelled (b)	(471,800)	(306,489)
Shares issued on exercise of special warrants (c)	4,950,500	5,000,005
Private placement of flow-through shares (a)	2,380,954	2,500,002
Share issue costs	–	(560,251)
Balance, December 31, 1999	47,414,879	33,662,698
Shares issued on acquisition (note 2)	1,818,186	1,854,550
Exercise of warrants (c)	199,010	201,001
Exercise of stock options (e)	76,000	53,450
Shares acquired and cancelled (b)	(1,347,500)	(958,538)
Future tax effect on flow-through shares	–	(892,000)
Share issue costs	–	(115,864)
Balance, December 31, 2000	**48,160,575**	**33,805,297**

Warrants and options outstanding:	2000	1999
Share Purchase Options	**4,184,000**	3,460,000
Underwriters' Warrants (c)	**296,040**	495,050

(a) In November 1999, the Company issued 2,380,954 common shares at $1.05 per share for proceeds of $2,500,002. Under the terms of the private placement, $2,000,000 was expended on qualifying exploration drilling and seismic prior to December 31, 2000.

(b) The Company has established a normal course issuer bid that will enable the Company to repurchase up to 4,258,810 of its issued and outstanding common shares on the open market through the facilities of the Toronto Stock Exchange. Shares acquired under the bid will be cancelled and the bid will terminate on October 22, 2001. A previous normal course issuer bid terminated on October 31, 2000. During the year ended December 31, 2000, the Company repurchased and cancelled 1,347,500 (1999 - 471,800) common shares at a cost of $1,629,659 (1999 – $405,549). The excess of the cost of the shares over their assigned value was allocated to retained earnings.

(c) In December 1999 the Company issued 4,950,500 common shares upon exercise of 4,950,500 special warrants. The financing was completed on a private placement basis at a price of $1.01 per special warrant for gross proceeds of $5,000,005. The Company also issued 495,050 underwriters' warrants in connection with the sale of the special warrants. During September 2000, 199,010 shares were issued on exercise of these warrants for proceeds of $201,001. The remaining 296,040 warrants are exercisable until October 2, 2001 at an exercise price of $1.10.

(d) In 1999, 1,600,250 shares were issued on exercise of KeyWest A and B warrants for proceeds of $1,616,253. Unexercised A and B warrants expired September 22, 1999 and September 25, 1999, respectively. 4,166,667 KeyWest C warrants and 416,667 agent options expired unexercised on November 7, 1999.

(e) Pursuant to the Officers, Directors and Employees Stock Option Plan ("the Plan"), the Company can reserve for issuance and grant stock options to a maximum of 4,730,000 shares on a cumulative basis. Options granted under the Plan have a term of five years to expiry and vest equally over a three year period starting on the first anniversary date of the grant. The exercise price of each option equals the market price of the Company's common shares on the date of the grant. At December 31, 2000, 4,184,000 options with exercise prices between $0.65 and $1.42 were outstanding and exercisable at various dates to the year 2005.

A summary of the status of the Plan at December 31, 2000 and 1999, and changes during the years ended on those dates is presented below:

	2000		1999	
	Number Of Options	**Weighted Average Exercise Price**	Number Of Options	Weighted Average Exercise Price
Stock options, beginning of year	**3,280,000**	**$0.78**	1,450,000	$0.65
Granted	**1,350,000**	**$1.22**	1,870,000	$0.88
Exercised	**(76,000)**	**$0.70**	(40,000)	$0.65
Cancelled	**(370,000)**	**$0.97**	–	–
Stock options, end of year	**4,184,000**	**$0.91**	3,280,000	$0.78
Exercisable at end of year	**1,359,333**	**$0.73**	470,000	$0.65

The following table summarizes information about the stock options outstanding at December 31, 2000:

	Options Outstanding at December 31, 2000			Options Exercisable at December 31, 2000	
	Number Of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Range of Exercise Prices					
$0.65 to $0.90	**2,374,000**	**2.74**	**$0.71**	**1,206,000**	**$0.71**
$0.90 to $1.15	**805,000**	**4.13**	**$1.06**	**153,333**	**$1.03**
Over $1.15	**1,005,000**	**4.65**	**$1.26**	**–**	**–**
$0.65 to $1.42	**4,184,000**	**3.46**	**$0.91**	**1,359,333**	**$0.73**

Under a pre-existing option plan 180,000 options for shares exercisable at $1.00 were outstanding at December 31, 1999. During the year these options were cancelled.

In addition to the Plan, the Company initiated an employee stock purchase plan in 1999 which is available to all permanent employees. Under the terms of the stock purchase plan, qualifying employees may contribute up to ten percent of basic annual earnings and the Company matches these contributions. The contributions are administered by a local investment firm that purchases shares on behalf of the employees on the open market. The Company's share of contributions is recorded as compensation expense and amounted to $117,446 in 2000 (1999 – $32,364).

6. Per share amounts:

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. In the fourth quarter of fiscal 2000, the Company retroactively adopted the new standard. Under the new standard, the treasury stock method is used instead of the imputed earnings method, whereby only the "in the money" dilutive instruments impact the diluted calculations.

In computing diluted earnings and cash flow from operations per share, 1.1 million shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2000 (1999 - 0.7 million) for the dilutive effect of employee stock options and warrants. No adjustments were required to reported earnings or cash flow from operations in computing diluted per share amounts.

Prior period diluted earnings per share and cash flow from operations per share have been restated for this change. If the imputed earnings method had been used to calculate the amounts, the reported amounts would have been:

	2000	1999
Diluted earnings per common share	**$ 0.14**	$ 0.05
Diluted cash flow from operations per common share	**$ 0.35**	$ 0.09

7. Income taxes:

Effective January 1, 2000, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes. As permitted under the new rules, financial statements for all periods prior to January 1, 2000 have not been restated. The cumulative effect of adopting the liability method of tax allocation effective January 1, 2000 was a one time increase to future tax asset and reduction to capital assets of $960,793. The net earnings for the year were reduced by this amount as a result of the change.

The future income tax liability includes the following temporary differences:

	2000
Oil and gas properties	**$ 7,720,517**
Site restoration	**(148,347)**
Share issue costs	**(327,526)**
	$ 7,244,644

The provision for current and future income taxes differs from the amount computed by applying the combined federal and provincial tax rates to earnings before income taxes. The difference results from the following:

	2000 Liability Method	1999 Deferral Method
Earnings before taxes	**$11,773,371**	$ 1,958,060
Combined federal and provincial tax rate	**44.6%**	44.6%
Computed "expected" tax	**$ 5,250,923**	$ 873,295
Increase (decrease) in taxes resulting from:		
Non-deductible crown charges net of royalty tax credits	**1,717,243**	411,908
Resource allowance	**(2,388,370)**	(318,989)
Non-deductible depletion and depreciation	**–**	36,795
Capital taxes and resource surcharges	**196,938**	60,000
Non-deductible expenses	**39,382**	–
Benefit of prior year losses	**–**	(1,003,009)
Reported income taxes	**$ 4,816,116**	$ 60,000

8. Change in non-cash working capital:

	2000	1999
Accounts receivable	**$(3,794,584)**	$ (2,663,586)
Notes receivable	**–**	299,707
Accounts payable	**4,704,151**	4,948,929
	909,567	2,585,050
Included in investing activities	**(3,360,832)**	(3,713,286)
	$(2,451,265)	$ (1,128,236)

9. Financial instruments:

The Company is exposed to fluctuations in commodity prices, interest rates, and exchange rates. The Company monitors and when appropriate, utilizes financial instruments to manage exposure to these risks. Financial instruments are subject to fluctuations in prices and rates, but by nature of being hedges on an actual or anticipated transaction, any gains or losses are recognized when the sale of the related production is recognized in the financial statements.

Counter-parties to the financial instruments expose the Company to losses in the event of non-performance. The Company deals with major institutions and does not anticipate non-performance by counter-parties.

(a) Commodity price risk management:

There were no financial instruments in place to manage commodity prices during fiscal 2000. In December 2000 the Company entered into a crude oil basis swap to fix the differential price (West Texas Intermediate to Bow River, Alberta) on 500 bbls of oil per day at US $8.25 per barrel for fiscal 2001. At December 31, 2000, had the contracts been settled on that date, a gain of $1.7 million would have been realized.

(b) Foreign currency risk management:

The Company has entered into foreign exchange rate swap agreements for the 2001 fiscal year. These contracts total US $500,000 per month at an after discount rate of $1.515 Cdn/US, or $0.66 US/Cdn. The estimated fair value at December 31, 2000 approximates contract value.

(c) Fair value of financial instruments:

The carrying amounts of the Company's financial assets and liabilities approximate their fair values at December 31, 2000 due to their short term maturity.

(d) Credit risk:

Accounts receivable include amounts receivable for oil and gas sales made to large, credit worthy purchasers. The Company views the credit risks on these items as minimal. Accounts receivable from joint venture partners are, in most cases recoverable from production, and accordingly the Company view the credit risks on these amounts as minimal.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP"):

The Company follows accounting principles generally accepted in Canada which differ in certain respects from those applicable in the United States and from practices prescribed by the Securities and Exchange Commission (SEC). The significant differences in accounting principles and practices that could affect the reported earnings are as follows:

- The Company would be required to perform an SEC prescribed ceiling test. In determining the limitation on capitalized costs, SEC rules require a 10 percent discounting of after-tax future net revenues from production of proved oil and gas reserves. To date, application of the SEC prescribed test has not resulted in a write-down of capitalized costs.

- The Company would be required to adopt SFAS 109 – Accounting for Income Taxes. The application of this SFAS requires the use of the asset and liability method of accounting for income taxes. To date, application of the asset and liability method has not affected reported earnings.

- The Company finances a portion of its activities with flow-through share issues whereby the tax deductions on expenditures are renounced to the share subscribers. The estimated cost of the tax deductions renounced to shareholders has been reflected as a reduction of the stated value of the shares. The SEC requires that when the qualifying expenditures are incurred and renounced to the shareholders the estimated tax cost of the renunciation is reflected as a tax expense.

Reconciliation of the reported earnings as a result of the difference between Canada and the United States accounting principles in accounting for the estimated tax cost of the renunciations for the year ended December 31, 2000 and 1999 are as follows:

	2000	1999
Earnings for the period, as reported	$ 6,957,255	$ 1,898,060
Estimated tax cost of the renunciation of tax benefits on expenditures	(892,000)	(600,000)
Earnings for the period in accordance with United States Accounting Principles	$ 6,065,255	$ 1,298,060
Earnings per share – basic	$ 0.13	$ 0.03
– diluted	$ 0.12	$ 0.03

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